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July 1, 1996

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VIA FEDERAL EXPRESS

Office of the Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RE: Comments of the Illinois Public Telecommunications Association in CC Docket
No. 96-128, In the Matter of Implementation of the Pay Telephone
Reclassification and Compensation Provisions of the Telecommunications
Act of 1996

Ladies and Gentlemen:

Enclosed for filing, please find an original and twelve copies of the Illinois Public Telecommunications Association's Comments in the above matter. We would also appreciate it if you would return a filed-stamped copy of the Comments in the enclosed self-addressed stamped envelope.

If you have any questions, please feel free to contact me.

Sincerely,



Michael W. Ward

MWW:cj

Enclosures

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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

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Implementation of the)
Pay Telephone Reclassification)
and Compensation Provisions of the)
Telecommunications Act of 1996)

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**INITIAL COMMENTS OF THE
ILLINOIS PUBLIC TELECOMMUNICATIONS ASSOCIATION**

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Dated: July 1, 1996

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The Illinois Public Telecommunications Association ("IPTA") submits the following comments in response to the Federal Communications Commission's ("FCC") Notice of Proposed Rulemaking ("NPRM") in this matter, released on June 6, 1996.

I. SUMMARY.

The ability to develop full and effective competition in the payphone industry requires recognizing the connection between eliminating the subsidies to the incumbent local exchange carriers ("LECs") payphone services, which payphones are the price leaders in the industry, and developing a system by which payphone providers are no longer subsidizing nonpresubscribed carriers for subscriber 1-800 calls and access code calls. The IPTA commends the FCC for recognizing the need to eliminate these subsidies and the relation of ending these subsidies to reducing the price for presubscribed operator service calls. By issuing this NPRM at the same time the FCC evaluates the Second Further Notice of Proposed Rulemaking in CC Docket No. 92-77, *In the Matter of Billed Party Preference for InterLATA 0+ Calls*, the FCC will hopefully

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develop an industry-wide structure whereby all payphone providers receive fair compensation on all calls, thereby reducing the need for subsidies from presubscribed 0+ carriers to cover the costs not recovered because of inadequate compensation on nonpresubscribed interLATA and intraLATA calls. This structure is ultimately the mechanism that will reduce the price of presubscribed operator service calls.

II. IPTA HISTORY AND BACKGROUND.

The IPTA is in the unique position of evaluating an industry that, in Illinois, has undergone a metamorphosis over the last 10 years. Founded in 1985 as the Independent Coin Payphone Association, the IPTA is the nation's oldest payphone association. Its stated purpose is to promote the development of fair and effective competition in the payphone industry in the public interest. The IPTA currently has approximately 90 members, 68 of which are independent payphone providers ("IPPs")¹. Since its inception, the IPTA has been actively involved in investigations and regulatory proceedings which have gathered information and developed regulatory policies on payphone-related issues. In the state of Illinois, there are approximately 110,000 payphones, primarily owned by the IPPs and the three Tier I local exchange companies in Illinois: Illinois Bell Telephone Company/Ameritech Illinois; GTE North Incorporated; and

¹. In Illinois, there is a significant legal distinction between the provision of *public* payphone services, provided by telecommunications carriers, and the provision of *private* payphone services. See ICC Docket No. 84-0442, Order, June, 1986. Almost all IPTA members are non-LEC telecommunications carriers, certified and regulated by the Illinois Commerce Commission pursuant to the Illinois Public Utilities Act to provide public payphone services.

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Central Telephone Company. All three Tier I LEC payphone services have been subjected to cost investigations in general rate case proceedings before the Illinois Commerce Commission. *Illinois Bell Telephone Company*, ICC Docket No. 89-0033; *GTE North Incorporated*, ICC Docket No. 93-0301; and *Central Telephone Company*, ICC Docket No. 93-0252. See also *Illinois Bell Telephone Company Petition for Alternative Form of Regulation*, ICC Docket No. 92-0448.

In addition to the payphone cost data developed in these proceedings, the IPTA prosecuted an exhaustive seven-year payphone-specific complaint proceeding investigating the entire structure of the 80,000 Illinois Bell payphones, complete with extensive review of voluminous cost data. *Independent Coin Payphone Association v. Illinois Bell Telephone Company*, ICC Docket No. 88-0412, Order, June 7, 1995 (Appendix A). A substantial portion of this hearing was dedicated to the development and review of payphone cost data. The Illinois Commerce Commission used this extensive data in a recently concluded three-year investigation for compensation to IPPs for intrastate access code operator service calls and subscriber 1-800 calls. *AAA Coin-Phones & Systems, Inc. et al. v. American Telephone and Telegraph Company, et al.*, ICC Docket No. 92-0400, Order, October 3, 1995 (Appendix B). Relying upon the voluminous payphone data available from these proceedings, the Illinois Commerce Commission ordered AT&T, MCI, and Sprint to pay the complainant IPPs a compensation level of \$.30 per-call for every intrastate access code and subscriber 1-800 call to recover the non-traffic sensitive (fixed) payphone costs.

These proceedings provide the Illinois Public Telecommunications Association with a

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background and experience which few other parties will have.

III. ARGUMENT.

**A. FAIR COMPENSATION IS NEEDED FOR EACH AND EVERY COMPLETED
INTRASTATE AND INTERSTATE CALL ORIGINATED BY PAYPHONES.**

The NPRM notes that the Telecommunications Act of 1996 ("1996 Act") requires the FCC to ensure that LECs and IPPs, collectively, payphone service providers ("PSPs"), are fairly compensated for all calls originated by their payphones, and requests comments on what fair compensation is intended to mean within the context of the 1996 Act.² The NPRM correctly concludes that fair compensation relates to all calls: coin; directory assistance; operator services; access code; and subscriber 800. Fair compensation is not limited to calls where the payphone provider already is being compensated.

The Commission must now follow this logic through by setting a fair rate of compensation for subscriber 1-800 and access code calls at rates that approximate a competitive market rate. The large IXC's control the buyers' market, much like a monopsonist, of nonpresubscribed operator service calls. These carriers advertise to their end users to dial around the presubscribed carrier in an effort to obtain traffic, and have learned that it is significantly cheaper to advertise to end users to dial around, and pay the dial around compensation, than compensate the payphone provider a fair market-based rate of compensation.

² NPRM, at par. 16.

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In *Independent Coin Payphone Association*, an exhaustive seven year proceeding dedicated solely to investigating and analyzing the structure and underlying costs of payphone services, the Illinois Commerce Commission implicitly recognized the relationship of coin rates/revenues and the revenues received by payphone providers for operator services utilizing their payphones. Finding an Illinois Bell revenue shortfall of \$27 million, even with increasing the coin rates³ it was necessary for Illinois Bell payphones to receive forty percent (40%) of the gross operator revenues simply to meet costs. Illinois Bell was ordered to pay a similar compensation rate to IPTA members for Illinois Bell operator services utilizing IPTA members' payphones. Without compensation for the operator services calls, though, it would have been necessary to raise the coin rates another \$10.5 million.⁴

The NPRM recognized five types of calls made through payphones. As found in *Independent Coin Payphone Association*, the lack of adequate compensation from any one or more these types of calls has a direct result of increasing the need to derive revenues from the remaining calls, often unfairly forcing increased end user prices on those calls.

Consequently, a rate of compensation that is set at or below costs will create distortions in the market, especially in those states where the rates for local coin calls are priced below costs. Unless the Commission adopts a fair rate of compensation, for subscriber 1-800 calls and access

³ The local coin rate increased from \$.25 for an untimed call to a \$.35 charge for the initial period of a timed call.

⁴ *Independent Coin Payphone Association*, at 16-21 (Appendix A).

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code calls, i.e. a rate greater than cost, PSPs in most states will be faced with the following scenario:

1. Local coin calls at rates that do not cover the economic costs, or long run service incremental costs ("LRSIC"), of a call;
2. Subscriber 1-800 calls that either do not cover the LRSIC of a call, or just barely cover the LRSIC of a call, with no contribution to cover common expenses;
3. Nonpresubscribed operator service calls that either do not cover the LRSIC of a call, or just barely cover the LRSIC of a call, with no contribution to cover common expenses;
4. Compensation from presubscribed operator service providers, which currently subsidizes the revenue shortfalls from 1, 2, and 3 above which will decline to no longer be able to subsidize the revenue shortfalls from 1, 2, and 3 above; and
5. 1+ coin calls whose prices will increase to subsidize all the other shortfall in revenue

This scenario creates distortions which could virtually cripple an industry before it even has had the opportunity to develop. The FCC must continue its initiative and adopt a fair rate of compensation for every call at a level greater than cost.

B. THE RATE FOR ACCESS CODE CALLS AND SUBSCRIBER 1-800 CALLS SHOULD BE \$.55 PER CALL.

The IPTA proposes that the FCC adopt a rate of compensation that: 1) exceeds cost; and 2) is at a level based on the value which IXC's place on having the IXC's customers complete calls through the use of the PSPs' services and facilities. The IPTA proposes that the FCC adopt a rate

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of compensation for both operator service calls and subscriber 1-800 calls of \$0.55 per call.

The evidence from the Illinois proceedings referred above indicates that the actual per-unit cost of a 5-minute call from LEC payphones is \$0.42. The evidence from the *AAA Coin-Phones & Systems, Inc.* proceeding, submitted on over 1,850 IPP payphones, reflected a cost of between \$0.37 and \$0.55 per-call. Any rate of compensation set by the FCC should at least meet these costs.

1. LEC Surrogate Costs Average \$0.42 For a Five Minute Call.

In the *AAA Coin-Phones & Systems, Inc.* proceeding to determine the appropriate level of compensation for intrastate access code calls and subscriber 1-800 calls, the Illinois Commerce Commission Staff ("Illinois Staff") looked at the wealth of data generated from the three Tier I LEC payphone operations in Illinois. From this they developed a surrogate cost-based analysis to recommend a fair level of compensation. The cost standard utilized by the Illinois Staff was the theoretical economic cost analysis employed by the LECs in the above proceedings, known as long-run service incremental costs or LRSIC. An LRSIC study is an economic analysis of theoretical future costs.⁵ These are the hypothetical future costs of providing service by employing the least-cost technology, and exclude overhead, embedded, and shared costs (collectively "common expenses"). LRSIC analyses differ from the fully-distributed cost analysis

⁵ 83 Il. Adm. Code Part 791.

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of the FCC. A fully-distributed cost analysis relies upon actual accounting costs and distributes all costs to individual services. Given that LRSIC presumes that only the least-cost technology will be employed, and does not allocate or distribute any of the common expenses, as a rule LRSIC costs are below fully-distributed costs for the same service.

The Illinois Staff looked at the payphone cost studies from the *Independent Coin Payphone Association* proceeding and at those provided by the other Tier I LECs' proceedings. Since the PSPs are not billed for any of the access code or subscriber 1-800 usage traffic, the Illinois Staff determined that usage-sensitive costs were inapplicable and removed them from the analysis. It then reviewed the non-usage-sensitive, or fixed, direct costs of the LEC payphone operations and determined the estimated fixed direct cost to maintain and operate a payphone station for one month. Against these fixed costs it applied the average minutes of use for a single payphone station per month.⁶ Dividing the fixed payphone monthly cost by the average intrastate monthly payphone minutes-of-use, the Illinois Staff analysis resulted in a per minute-of-use fixed cost. The LEC payphone data base showed an average intrastate call to be approximately four minutes in length, for a LRSIC average per-call cost of \$0.248, or \$0.25.

The common expenses, which were not included in the theoretical LRSIC, were then added to the LRSIC. Through an earlier Illinois Commerce Commission proceeding, and

⁶ Although the Illinois Staff initially applied an estimated minutes-of-use per payphone per month gathered from general conversations, at the hearing it was acknowledged, and ultimately determined by the Illinois Commerce Commission in the final order, that the actual minutes-of-use found in the LEC payphone cost study in the Commission records was the appropriate data to use.

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pursuant to orders of the Illinois Appellate Court, an allocation procedure for common expenses had been set according to a ratio of the service's LRSIC to the aggregate LRSICs of all of the LEC's services. The annual common expenses allocated due to the payphone service's LRSIC was divided by the total number of calls per year per payphone, to determine an average per-call allocation of common expense level of \$0.11. From this LEC data base of between 80,000-90,000 payphones, the average non-usage-sensitive (fixed) direct cost per-call of \$.25, plus a common expense per-call allocation of \$0.11, totaled an average LEC payphone cost per-call of \$0.36.

The Illinois analysis was based on an average call of 4 minutes. The FCC has indicated that its studies show that an average call lasts approximately 5 minutes.⁷ Therefore, adjusting the LEC cost-per-call for 5 minutes would result in an average cost of \$0.42 per interstate call.

2. IPP Costs Average \$.37 to \$.55 Per Call

The members of the IPTA which brought the Illinois intrastate compensation complaint were fully aware of the FCC's rejection of compensating IPPs based on the actual costs of the IPPs⁸ and submitted a market analysis for setting the compensation level. Although the three Illinois defendant interexchange carriers, AT&T, MCI, and Sprint, had access to the actual costs

⁷ *In the Matter of Policies and Rules Concerning Operator Service Access and Payphone Compensation, Report and Order, 6 FCC Rcd 4736 (1991).*

⁸ *Id.*

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of the complainants, and had argued that compensation should be based on those costs, they did not submit any cost analysis. In response to the Illinois Staff's LEC surrogate cost study, the Illinois complainants produced a sampling of three different IPPs' payphone costs which were analyzed for use as a ballpark comparison to the LEC cost surrogates. These three companies were selected on the basis of providing a cross-section of company sizes and payphone service areas, and on the basis that the companies had sufficiently organized and accurate books and records upon which to rely.

One company was a small payphone provider operating primarily in the Chicago metropolitan area. A second company was a medium-sized payphone provider operating in rural areas and in downstate urban centers. The third provider was a large company operating throughout the state with some additional phones in adjacent states. Economic cost studies, such as LRSIC, were not feasible for these companies. Instead, the actual accounting costs were used. For the direct costs, the same non-usage-sensitive (fixed) cost elements utilized in the Illinois Staff's LEC study were drawn from the IPPs' books and records of their accounting costs. The usage-sensitive costs eliminated by the Illinois Staff were eliminated from the IPPs' accounting costs.

The total number of payphones represented by these three companies in the cost analysis were over 1,850 payphones, out of a total of approximately 10,000 payphones represented by the IPTA, or approximately 18.5%. Under this cost analysis, the averaged non-usage (fixed) direct cost per-call, including access code operator services calls, ranged between \$0.25 and \$0.32.

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Common overhead and common expense costs added average costs of between \$0.11 and \$0.23 per-call. Combined, the actual non-usage (fixed) cost per-call ranged from \$.37 to \$.55.⁹

The total non-usage (fixed) direct costs per-call of the IPPs ranged from \$0.25 to \$0.32, compared with the LEC surrogate non-usage (fixed) direct costs per-call of \$0.25. The IPPs' common expenses per-call of from \$0.11 to \$0.23 compared with the \$0.11 per-call for the LECs. The lower end of the IPP range was close to the LEC common expenses. The higher end of the range probably reflects the higher overhead associated with a growing company for which traffic has not yet met its cost expenditures. The IPPs' combined total of non-usage (fixed) direct costs and common expenses of \$0.37 to \$0.55 compares with the LEC surrogate of \$.36 or, utilizing the FCC's average call length of five minutes a call, the LEC surrogate combined costs would be \$0.42 per-call¹⁰.

3. Market Analysis.

In the *AAA Coin-Phones & Systems, Inc.* proceeding, the IPPs analyzed different market rates that were available for the Illinois Commerce Commission to use in setting the proper rate of

⁹ The Illinois proceeding included the granting of compensation for all subscriber 1-800 calls through the IPP payphones. The application of the addition of this traffic to the fixed cost base changed the average cost per-call as follows: a non-usage (fixed) direct cost per-call ranged from \$.22 to \$.29; the common overhead and common expense costs per-call ranged from \$.10 to \$.21; the total actual non-usage (fixed) costs per-call ranged from \$.33 to \$.50, including the recovery of costs from the subscriber 1-800 traffic.

¹⁰ The IPP costs were figured on a per call average and these were not sensitive to the minutes of use per call. The Illinois Staff's surrogate LECs' costs were figured on a per minute of use basis and therefore change based on the average minutes of use per call.

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compensation. With each proposal, the IPPs outlined the different ways in which the OSPs and end users independently value the use of the payphone in completing calls such as subscriber

1-800 calls and operator service calls. The following is a description of the data.

1. **\$0.95:** The AT&T coin surcharge which AT&T charges its end users necessitates, and thereby quantifies, the value of the use of a payphone to place a call. This rate is perhaps the single most persuasive indicator of the value that AT&T and an end user place on making a call from a payphone. If an end user places an operator service call through the use of coins, therefore requiring the use of a payphone by definition, AT&T charges its customers a surcharge of \$0.95 per call *greater* than the surcharge that AT&T imposes generally on the same call utilizing a calling card, which can be placed from any telephone
2. **\$0.78:** AT&T offers interexchange services to payphone providers that subscribe to coin line services offered by Illinois Bell. When an end user places an interexchange call from a payphone and uses AT&T's interexchange service, AT&T rates and carries the call, and bills the payphone provider for the coins deposited by the end user. However, AT&T compensates the payphone provider with 35% of the revenue generated from the phone. \$0.78 is achieved by applying AT&T's compensation rate (35%) by the *minimum* tariff rate for a *one minute* coin call made from a payphone.
3. **\$0.57:** This figure is based on the compensation paid by MCI, or its agents, *from access code operator service calls*.
4. **\$0.60:** In ICC Docket No. 88-0412, Illinois Bell Telephone's cost studies indicated that it would need approximately \$0.49 per-call from operator services revenue just to break even. However, to compensate for common expenses, Illinois Bell must compensate its payphone services an additional \$0.11 per-call. Therefore, Illinois Bell's operator services compensation rate is another indicator of the market level of compensation.
5. **\$0.48:** This is based on the market rate of commissions paid by most OSPs of between 20% to 30% of the gross revenue. This is at the lower end of the range, i.e. 20%.

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6. **\$0.43** Sprint testified that the presubscribed carrier should pay more on a percentage basis than an OSP not presubscribed. Specifically, Sprint stated that the PSPs should receive approximately 2% less than the market rate of commissions. Applying Sprint's theory to the 20% market rate of commission yields a rate of 18%. The higher end of the range for operator service commissions would yield a rate of \$0.67 per-call.¹¹

In the *AAA Coin-Phones & Systems, Inc.* proceeding, the Illinois Commerce Commission elected to base its compensation level purely on its cost based analysis. Still, the data showing market valuation of the OSPs' use of the payphone facilities clearly illustrates that the compensation level ordered was at the bottom end of the range of levels for intrastate calls supported by the factual evidence.

4. Compensation Level Summary

The FCC should set the proper compensation level based on the best available data. The appropriate range based on the above data necessitates a compensation level of between \$.42 per call, as indicated by the LEC surrogate costs for a five minute call, and the \$.55 per call, as indicated by the IPPs accounting cost per call without compensation for subscriber 1-800 traffic. The IPTA recommends a per call compensation level of \$.55 per call, to enable some PSPs to recover at least their average non-usage based costs per call, and to allow the more efficient PSPs a small margin towards profit in reward for their efficiency

¹¹ *AAA Coin-Phones & Systems, Inc.*, at 6 (Appendix B).

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There are several benefits of setting the rate of compensation at this level. First, PSPs receive compensation at a level which they have found acceptable in the marketplace. To the extent payphone providers presubscribe their payphones currently to large IXC's, the payphone providers have found these rates of compensation for presubscribed operator service calls to be rates which will satisfy them. These rates cover the PSPs cost of making their services and facilities available for use by the IXCs and the IXCs' customers,

Second, IXCs are paying a rate of compensation which they too have found acceptable. These market rates are effectively what the large IXCs have set as the rate for their being the presubscribed carrier. In addition, the rates for operator service calls from the large IXCs can absorb compensation rates at this level, without an increase in price. The IXCs currently pay these market rates when they are the presubscribed carrier. The IXCs do not increase their rates to end users if they are the presubscribed carrier, so the IXCs can clearly absorb these compensation levels in their existing revenue from operator service calls. The end user rates for the large will remain the same even if the IXCs are required to pay a fair rate of compensation to the payphone provider.

Third, this rate will encourage competition in the operator service industry, allowing the small IXCs who have traditionally charged higher rates for operator service calls to reduce their rates to be more in line with what the large IXCs have charged. If the Commission ultimately reduces the rate cap for operator service calls, small IXCs who will have to reduce their end user rates will still have sufficient revenue to compensate payphone providers a fair rate of

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compensation. However, even at the lower rates, the small IXC's should be able to compete for end users. These small IXC's, no longer burdened by having to pay higher commissions to be the presubscribed carrier, will be able to more effectively market their services to end users.

This structure may have also the effect of reducing the incentive to pay high commissions to be the presubscribed carrier. Because the payphone provider receives essentially the same compensation from the presubscribed carrier as from a carrier on a dial-around call, with lower rate caps implemented, there is less incentive for a payphone provider to direct calls to an operator service provider who charges higher rates. The payphone provider is not harmed because it is receiving a fair rate of compensation on all uses of its services and facilities, at rates acceptable in the market. Although the per call rate of compensation is less, the payphone provider receives compensation on more calls.

Of course, the lynch pin of this entire structure is setting a rate of compensation for all calls, including access code calls and subscriber 1-800 calls, that fairly compensate payphone providers for the use of their services and facilities. The best available data indicates that a rate of \$0.55 is the appropriate rate of compensation.

C. THE IXCs SHOULD COMPENSATE PAYPHONE PROVIDERS AND THEN DETERMINE FOR THEMSELVES HOW TO RECOVER THEIR COSTS.

The NPRM requests comment on whether the FCC should adopt a "carrier-pays" mechanism for compensation, or should adopt a "set use fee" mechanism whereby the end users

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have surcharges imposed on their bills. The Commission should adopt the carrier-pays mechanism, whereby the carriers compensate PSPs for the use of the PSPs' services and facilities and then determine for themselves how to recover their costs. The payment to PSPs of fair compensation is merely one of many cost elements which IXC's and OSPs must account for in their decision to price a call to end users.

The set-use fee mechanism inappropriately entangles end users in the business arrangements between telecommunications carriers. When LECs and IXC's compensate each other for the use of each others facilities, the compensation is done behind the scenes without a mandatory requirement for end user surcharges, access fees, and set use fees listed separately on an end user's bill. Similarly, when an IXC sends its customer a bill, the IXC should have the responsibility for pricing its calls at rates which cover its costs, without separately listing each cost element relating to transactions with other carriers.

The carrier-pays mechanism not only reduces the transactions costs, but also reduces customer confusion. This industry is about to embark on a very dynamic transition where customers have more options, more choices, and more freedom to choose carriers. These freedoms will also lead to more information which customers will have to dissect to determine their carriers. There will be an ever increasing number of carrier to carrier interconnection arrangements, with corresponding charges. The Commission will set a dangerous precedent by recommending a scheme whereby telecommunications carriers start disclosing their cost elements as "surcharges" or "set use fees" which are allegedly collected by other carriers. Compensation to

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PSPs is nothing more than a cost to the IXC's for use of the payphone providers' facilities.

The Commission should reject any notion of a set use fee and adopt a carrier-pays compensation mechanism that builds on existing procedures

D. THE ABILITY OF CARRIERS TO TRACK CALLS FROM PAYPHONES IS NO LONGER IN ISSUE.

It is clear from previous proceedings both at the FCC and at the Illinois Commerce Commission that IXC's have the ability to identify the number of compensable calls made from payphones by tracking the calls it receives from an ANI. By matching the information of calls coming into its network, and maintaining originating-ANI information, carriers can identify the number of calls which must be compensated to that ANI. The only administration involved then is matching the ANI to the entity who is entitled to be compensated.

In Illinois, AT&T, MCI, and Sprint are all required to track intrastate access code and subscriber 1-800 calls from payphones pursuant to the order of the Illinois Commerce Commission, at their own cost. *AAA Coin-Phones & Systems, Inc.*, at 4-5 (Appendix B). This is in addition to the interstate access code call tracking implemented by AT&T, Sprint, Ameritech, and Southwestern Bell, as noted by the NPRM, at par. 10. The FCC has also determined that 1-800 and 10xxx calls may be tracked. NPRM, at par. 29. Clearly, the technical feasibility of per call tracking is established.

The FCC should maintain the existing procedure whereby the IXC's are responsible for

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tracking the number of compensable calls. The IPTA believes that, at the rate of \$0.55 per call, only completed calls should be compensable. The IXC that ultimately is responsible for billing the end users may be the only carrier involved in the call that can and does maintain the information of: 1) the originating ANI; 2) the terminating ANI; 3) the length of the call; and 4) whether the call was completed. Along the physical completion of a call, there may be several telecommunications carriers involved in making the connection from the originating ANI to the terminating ANI: the originating payphone; the originating LEC (which now could be a reseller of a facilities-based LEC); the originating IXC to whose POP a call is transmitted (even the originating IXC could be a reseller of a facilities-based IXC); and a series of interconnecting carriers, ultimately to the terminating LEC and terminating ANI. Each of these carriers could be involved in the completion of the call. The carrier responsible for billing the customer should be responsible for identifying the originating payphone ANI, and compensating the entity who claims that ANI.

E. THE CURRENT ADMINISTRATION OF COMPENSATION BETWEEN CARRIERS IS GROSSLY DEFECTIVE.

The current mechanism being employed by the IXCs to compensate payphone providers is extremely defective and prejudicial to payphone providers. The IXCs have unilaterally developed a payment plan whereby they determine the rules on who gets compensated, which calls they will compensate without some dispute procedure by the payphone provider, and when the

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compensation is paid. The Commission must modify the existing structure to develop a more equitable compensation procedure. Although the IPTA agrees with the NPRM that direct billing is the preferred procedure, the FCC must modify the existing direct billing procedure to: 1) shorten the time before a completed call is compensated; and 2) eliminate the heavy-handed burdens imposed on PSPs by the IXC's before a call is compensated.

Currently, the IXC's which are required to pay compensation for interstate OSP calls require the following steps before a call is compensated:

1. A call made on January 1, 1996 is received and tracked by the IXC.
2. The IXC's will not accept a claim for that call until May 1, 1996.
3. The IXC's will not process the claim until they receive verification from a LEC that the originating ANI was a payphone. LEC verifications are due by May 30, 1996.
4. The IXC's take approximately one month to process the claims for the January 1, 1996 call. The processing is completed by June 30, 1996.
5. Payment is delivered to the payphone provider on about July 10, 1996.

Along this arduous route, there are mechanisms built in by the IXC procedures by which they unilaterally determine a call will not be compensated. For example, some IXC's have unilaterally determined that if the LEC does not send any positive or negative information to confirm whether the claimed ANI is a payphone, the IXC's dispute the PSP's claim for compensation. However, the IXC does not notify the PSP until over 6 months after the call that

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the LEC did not provide information to verify the ANI was a payphone.

In addition, under the dispute procedures pursued by the IXC's, the payphone provider does not receive compensation on the ANI until the payphone provider gets a letter from the LEC, that did not provide any verification information to the IXC, confirming the ANI is a payphone. Even assuming the payphone provider sends the IXC a LEC bill for monthly service, the IXC's continue to insist upon a letter from the LEC

The time lag alone is a procedure that the FCC must cure. There is no other procedure in the telecommunications industry where a carrier is required to wait up to six months to receive compensation from interconnecting carriers. If a payphone provider uses AT&T's services and facilities to complete the payphone provider's 1+ traffic, AT&T bills monthly and expects payment within 30 days. AT&T is usually paid within 60 days of the first call. However, where the payphone provider is entitled to compensation, AT&T and the other IXC's have developed a procedure whereby they do not pay until over 180 days from the first date of traffic.

The FCC must force the IXC's to adopt a more equitable procedure to compensate PSPs. First, the quarterly schedule or paying compensation must be shortened to a monthly system. The primary delay in compensation is caused by the delay is the IXC's waiting for the LEC verification information. The LEC verification should not be used by the IXC's as an excuse to delay compensation. The IXC's can still obtain LEC verification if they choose, but the compensation should not be delayed while the IXC's wait for verification. Payphone providers do not request verification from LECs on whether access records confirm the bills sent by the IXC for 1+ calls.

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The FCC should require the IXC's to adopt a schedule that is more in line with the industry standard:

1. For calls made in January, 1997, the PSP submits its list of compensable ANIs to the IXC's by February 10, 1997.
2. The IXC's match the ANI with its call records, and compensate the PSPs on about March 10, 1997
3. If the IXC's wish to verify that the ANI was a payphone ANI, it can do so and make any necessary adjustments to future compensation payments

By shortening the quarterly compensation period to a monthly period, and then adopting the NPRM's recommendation that the IXC's not wait for LEC verification every period, the compensation for calls automatically falls in line with the industry practice. More importantly, the procedures for the compensation owed by PSPs to IXC's for 1+ calls is the same as the procedures for compensation owed by IXC's to PSPs

IV. CONCLUSION.

The FCC's NPRM has gone to great strides to develop an industry based on equitable and fair treatment of PSPs. The Commission can assure that the entire payphone industry is properly structured by adopting these recommendations by the IPTA:

1. Set a rate of compensation of \$0.55 per call for completed operator service calls and subscriber 1-800 calls;

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2. Require the IXC's to track and identify those calls that are compensable;
3. Require the IXC's to compensate PSPs on a monthly basis rather than a quarterly basis.

Respectfully submitted,

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